

Indonesia Economic Briefing

3Q17 GDP: Investment Led Growth



Economic Highlights

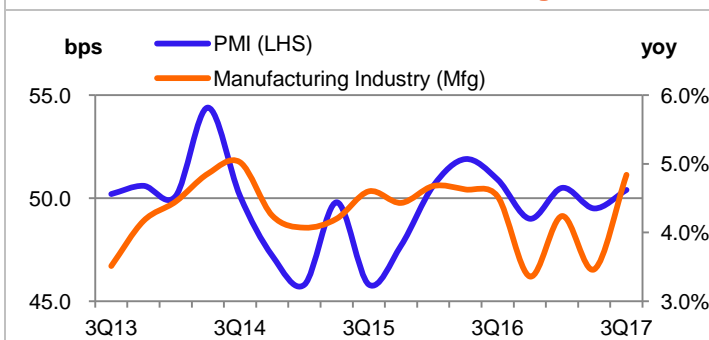
- The statistics office announced **Indonesia’s economic growth of 5.06% yoy** for the third quarter in 2017, slightly below our 5.08% estimate. Engine of growth last quarter was driven by fixed investment; while household consumption flattened and net trade contribution had faded. Given that global trade had reached its peak and that the rise in commodity prices had subsided, we think more attention will be given to domestic demand henceforth.
- It’s encouraging to see that fixed investment had grown from an average of 5.0% yoy these past 6 quarters to 7.1% yoy in 3Q17. It has also been a while since investment to machinery and equipment reached double digit growth; 5 years to be exact. Implying that the drive from investment isn’t merely from construction, but more broad-based. Even the manufacturing industry had recovered to above 4.8% growth (*please see Chart 1*). At the very least, **the shift from demand-driven investment to investment-led consumption has begun**, albeit partially supported by commodities.
- **Our non-consensus view on household consumption remains unchanged**. Since late last year, we have been saying that consumption may be curbed by transitory energy price -*please see our report dated 30 December 2016 on Indonesia Economic Outlook 2017: In Search for New Growth-*. Then recently we have turned more optimistic on the back of improving export and investment outputs, which increases Gross Domestic Savings (GDS). Today’s result has reinforced our optimism that consumption may pick-up next year and in-line with GDS, though we do not expect it to be at the same magnitude as 2012’s economic boom (*please see Chart 2*).
- **We maintained our call for FY17 GDP at 5.04%**. Cumulatively, 9M17 figures had already reached 5.03% yoy growth. There’s a possibility that 4Q17 result may surprise to the upside on the back of low base. Yet what is more important to watch is whether the structural shift in the economy could sustain going into early 2018, when economic agenda will likely be seconded and government elections take center stage.

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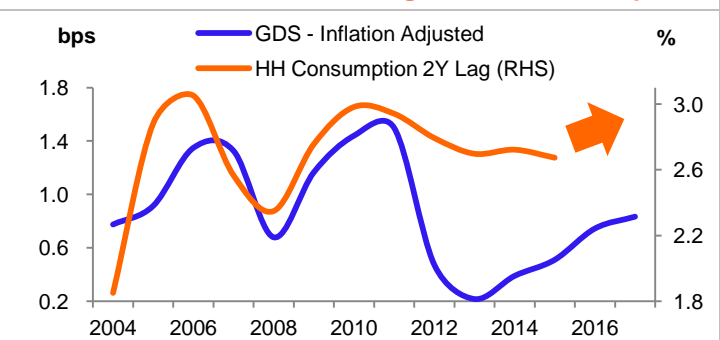
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Chart 1. PMI and Growth of Manufacturing



Source: IHS Markit, Central Bureau of Statistics (BPS)

Chart 2. Gross Domestic Saving and HH Consumption



Source: BI, Central Bureau of Statistics (BPS), Danamon Calculation

Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017E
National Accounts					
Real GDP (% y-o-y)	5.6	5.0	4.9	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	5.0	5.4	3.9	5.0	4.9
Real Consumption: Private (% y-o-y)	5.4	5.2	5.0	5.0	4.9
Real Gross Fixed Capital Formation (% y-o-y)	5.0	4.6	5.0	4.5	5.2
GDP (USD bn) — nominal	913	890	861	932	1,005
GDP per capita (USD) — nominal	3,648	3,529	3,371	3,604	3,838
Open Unemployment Rate (%)	6.3	5.9	6.2	5.6	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-2.8	-3.7	-15.4	-3.1	7.0
Imports (% y-o-y, BoP Basis)	-1.3	-4.5	-19.7	-4.5	6.6
Trade balance (USD bn, BoP Basis)	5.8	6.9	13.3	15.4	15.2
Current account (% of GDP)	-3.7	-3.2	-2.1	-1.8	-1.8
Central government debt (% of GDP)	21.3	23.5	26.6	27.7	30.2
International Reserves –IRFCL (USD bn)	99.4	111.9	105.9	116.4	114.0
Reserve Cover (Months of imports & ext. debt)	5.4	6.5	7.4	8.4	8.4
Currency/US\$ (Year-end)	12,189	12,440	13,795	13,436	13,430
Currency/US\$ (Average)	10,428	11,900	13,392	13,308	13,349
Other					
BI policy rate (% year end)	7.50	7.75	7.50	6.50*	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	6.25	4.75	4.25
Consumer prices (% year end)	8.08	8.36	3.35	3.02	3.81
Fiscal balance (% of GDP; FY)	-2.24	-2.26	-2.70	-2.46	-2.60
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BBB-

Source: CEIC, E = Danamon Estimates, *) Up to August 2016

Economic and Market Research

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